



Be Tax Ready – understanding tax reform changes affecting individuals and families

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The Tax Cuts and Jobs Act (TCJA), enacted in late 2017, produced the most sweeping tax law change in more than 30 years. The TCJA, often referred to as tax reform, affects nearly every taxpayer — and the 2018 federal return they'll file in 2019.

For taxpayers preparing to file their 2018 tax return or getting ready to meet with their tax professional, understanding the changes from the Tax Cuts and Jobs Act can help them “Be Tax Ready.” More information is available in IRS [Publication 5307](#), Tax Reform Basics for Individuals and Families.

Federal income tax withholding changes

The Tax Cuts and Jobs Act changed the way taxable income is calculated and reduced the tax rates on that income. The IRS issued new 2018 withholding tables last year to reflect these changes. Since taxpayers need to pay most of their tax during the year, as income is earned or received, the tables show payroll service providers and employers how much tax to withhold from employee paychecks.

Most taxpayers probably started seeing withholding changes in their paychecks early in 2018. IRS encouraged taxpayers throughout 2018 to use the IRS Withholding Calculator to perform a Paycheck Checkup and adjust their tax withholding by filing Form W-4, Employee's Withholding Allowance Certificate, with their employer if too much or too little tax was being withheld for the year. Taxpayers can also make estimated or additional tax payments to avoid an unexpected tax bill and possibly a penalty.

Taxpayers who pay too much tax during the year will claim a credit or refund for the overpayment while those who have too little tax, either through withholding or paid through estimated payments, may owe tax.

Taxpayers should review their tax withholding in 2019 and make any adjustments with their employer as early in the year as possible. This can help protect against having too little tax withheld and facing a lower refund or unexpected tax bill and even a penalty next year.

In addition to lowering the tax rates, other changes in the law that affect taxpayers and their families include suspending personal exemptions, increasing the standard deduction, increasing the child tax credit, and limiting or discontinuing certain deductions.

Deduction for personal exemptions suspended

For 2018, taxpayers can't claim a personal exemption deduction for themselves, their spouse or dependents. This means that taxpayers will not be able to reduce income subject to tax by an exemption amount for each person included on their tax return as they have in previous years. However, changes to the standard deduction

amount and child tax credit may offset at least part of this change for most families and, in some cases, may result in a larger refund.

Standard deduction nearly doubled

The standard deduction is a dollar amount that reduces the income on which a taxpayer is taxed. It varies by filing status. The Tax Cuts and Jobs Act nearly doubled standard deductions.

Starting in 2018, the standard deduction for each filing status is:

Filing Status	Standard Deduction Starting in 2018	Increased from 2017
Single	\$12,000	Up from \$6,350 in 2017
Married filing jointly. Qualifying widow(er).	\$24,000	Up from \$12,700 in 2017
Married filing separately	\$12,000	Up from \$6,350 in 2017
Head of Household	\$18,000	Up from \$9,350 in 2017

The amounts are higher for taxpayers who are blind or at least age 65.

More than nine out of 10 taxpayers use tax software or a paid preparer to file their taxes. Generally, taxpayers answer a series of questions in an interview format and the software or preparer chooses the best option (standard deduction or itemized deductions) for them. The new tax law hasn't changed this process and the IRS has worked extensively with software developers and tax preparers to ensure that they are prepared to help.

Itemized deductions modified or discontinued

Almost everyone who usually itemizes deductions filing Schedule A, Itemized Deductions, is affected by changes from the Tax Cuts and Jobs Act. Many individuals who itemized last year may now find it more beneficial to take the now higher standard deduction - and may have a simpler time filing their taxes.

Deduction for state and local income, sales and property taxes modified. A taxpayer's deduction for state and local income, sales and property taxes is limited to a combined, total deduction of \$10,000 (\$5,000 if married filing separately). Anything above this amount is not deductible.

Deduction for home equity interest modified. Interest paid on most home equity loans is not deductible unless the interest is paid on loan proceeds used to buy, build or substantially improve a main home or second home. For example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not.

Deduction for casualty and theft losses modified. A taxpayer's net personal casualty and theft losses must now be attributable to a federally declared disaster to be deductible.

Miscellaneous itemized deductions suspended. Previously, when a taxpayer itemized, they could deduct the amount of their miscellaneous itemized deductions that exceeded 2 percent of their adjusted gross income. These expenses are no longer deductible. This includes unreimbursed employee expenses such as uniforms, union dues and the deduction for business-related meals, entertainment and travel. It also includes deductions for tax preparation fees and investment expenses.

See the 2018 Instructions for [Schedule A](#), Itemized Deductions, and [Publication 5307](#) for other itemized deduction changes not listed here.

Benefits for dependents expanded or changed

Child tax credit and additional child tax credit. More families with children under 17 now qualify for a larger child tax credit. For 2018, the maximum credit increased to \$2,000 per qualifying child. Up to \$1,400 of the credit can be refundable for each qualifying child as the additional child tax credit. In addition, the income threshold at which the child tax credit begins to phase out is increased to \$200,000 (\$400,000 if married filing jointly).

Beginning with tax year 2018, a child must have a Social Security number issued by the Social Security Administration before the due date of the tax return (including extensions) to be claimed as a qualifying child for the child tax credit or additional child tax credit. Children with an ITIN can't be claimed for either credit.

Credit for other dependents. A new credit of up to \$500 is available for qualifying dependents other than children who can be claimed for the child tax credit. This means that a taxpayer may be able to claim this credit for children age 17 or over, including college students, children with ITINs, or other older relatives in the household. The qualifying dependent must be a U.S. citizen, U.S. national, or U.S. resident alien. The credit is calculated with the child tax credit in the form instructions. The total of both credits is subject to a single phase-out when adjusted gross income exceeds \$200,000 (\$400,000 if married filing jointly).

See 2018 [Publication 972](#), Child Tax Credit, for more information.

Deduction and exclusion for moving expenses suspended

The deduction for moving expenses is suspended. During the suspension, no deduction is allowed for use of an automobile as part of a move. Also, employers will include moving expense reimbursements as taxable income in the employees' wages because the new law suspends the former exclusion from income for qualified moving expense reimbursements from an employer. These changes do not apply to members of the U.S. Armed Forces on active duty.

Alternative minimum tax (AMT) exemption amount increased

The AMT exemption amount is increased to \$70,300 (\$109,400 if married filing jointly or qualifying widow(er); \$54,700 if married filing separately). The income level at which the AMT exemption begins to phase out has increased to \$500,000 (\$1 million if married filing jointly). See the 2018 Instructions for [Form 6251](#), Alternative Minimum Tax – Individuals for more information.

Reporting 2018 health care coverage

Taxpayers must continue to report coverage, qualify for an exemption, or report an individual shared responsibility payment for tax year 2018. Most taxpayers have qualifying health coverage or a coverage exemption for all 12 months in the year and will check the box on the front of their tax return. For tax year 2018,

the IRS will not consider a return complete and accurate if a taxpayer does not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment on the tax return. Taxpayers remain obligated to follow the law and pay what they may owe at the point of filing.

The shared responsibility payment is reduced to zero under the Tax Cuts and Jobs Act for tax year 2019 and all subsequent years. See [IRS.gov/aca](https://www.irs.gov/aca) for more information.

Retirement plans

Recharacterization of a Roth conversion. Individuals can no longer recharacterize a conversion from a traditional IRA, SEP or SIMPLE to a Roth IRA. The new law also prohibits recharacterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans. A regular contribution made to a Roth IRA or to a traditional IRA is still treated as having been made to the other type of IRA. See [IRA FAQs – Recharacterization of IRA Contributions](#) and [IRS.gov/taxreform](https://www.irs.gov/taxreform) for more information.

Plan loans to an employee that leaves employment. If a taxpayer terminates employment (or if the plan is terminated) with an outstanding plan loan, a plan sponsor may offset that person's account balance with the outstanding balance of the loan. If a plan loan is offset, a taxpayer has until the due date, including extensions, to rollover the loan balance to an IRA or eligible retirement plan. See [Retirement Plans FAQs regarding Loans and IRS.gov/taxreform](#) for more information.

Disaster relief. Laws enacted in 2017 and 2018 make it easier for retirement plan participants to access their retirement plan funds to recover from disaster losses incurred in federally declared disaster areas in 2016, 2017 and 2018. See the [Disaster Relief for Retirement Plans and IRAs](#) page for more information.

529 plans and ABLE accounts

ABLE accounts and rollovers from a 529 plan. The TCJA increases the amount of contributions allowed to an ABLE account and adds special rules for the increased contribution limit. It also allows an ABLE account's designated beneficiary to claim the [Saver's Credit](#) for contributions to the account. Rollovers in limited amounts are now allowed from a 529 qualified tuition program account of the designated beneficiary to the ABLE account of the designated beneficiary or his or her family member. For more information on ABLE accounts, see [Publication 907](#), Tax Highlights for Persons with Disabilities.

529 plans and K-12 education. TCJA expands the type of education for which a taxpayer can use 529 plan funds. The new law allows distributions from 529 plans to be used to pay up to a total of \$10,000 of tuition per beneficiary (regardless of the number of contributing plans) each year at an elementary or secondary (K-12) public, private or religious school of the beneficiary's choosing. For more information, see [Publication 970](#), Tax Benefits for Education.

Changes affecting small business taxpayers

Qualified business income deduction

Many owners of sole proprietorships, partnerships, trusts and S corporations may deduct 20 percent of their qualified business income. The new deduction -- referred to as the Section 199A deduction or the qualified business income deduction -- is available for tax years beginning after Dec. 31, 2017. Eligible taxpayers can claim it for the first time on the 2018 tax return they file in 2019. A [set of FAQs](#) provides more information on the deduction, income and other limitations.

Changes to depreciation and expensing for businesses

The Tax Cuts and Jobs Act changed some laws regarding depreciation and expensing that can affect a business's tax situation. Businesses can immediately expense more under the new law. There is a temporary 100 percent expensing for certain business assets. There are also changes to depreciation limitations on luxury automobiles and personal use property. More details are in [FS-2018-9](#), New rules and limitations for depreciation and expensing under the Tax Cuts and Jobs Act.

[Publication 5318](#), Tax Reform: What's New for Your Business, provides information about changes to deductions, depreciation, expensing, credits, fringe benefits and other items that may affect businesses.

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